

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Scott Steffen	President	2006
Bev Rens	Vice President	2006
Duane McDonald	Board Member (Resigned July 11, 2006)	2007
Gaynelle Connor	Board Member	2008
Travis Solem	Board Member	2008
Arlene Ford	Board Member	2007
Bob Parker	Board Member	2008

Board of Education (After September 2006 Election)		
Bev Rens	President	2009
Bob Parker	Vice President	2008
Curt DePauw	Board Member	2009
Kyle Montgomery	Board Member	2007
Arlene Ford	Board Member	2007
Travis Solem	Board Member	2008
Gaynelle Connor	Board Member	2008

School Officials		
Brad Hohensee	Superintendent	2007
Sharon Schott	District Secretary/ Business Manager	2007
Brian Gruhn	Attorney	2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District, Brooklyn, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

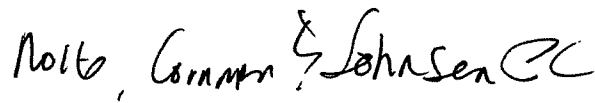
In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008 on our consideration of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Brooklyn-Guernsey-Malcom Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Brooklyn-Guernsey-Malcom Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,853,990 in fiscal 2006 to \$5,036,538 in fiscal 2007, while General Fund expenditures decreased from \$4,871,029 in fiscal 2006 to \$4,695,845 in fiscal 2007. This resulted in an increase in the District's fund balance from \$1,381,032 in fiscal 2006 to \$1,733,148 in fiscal 2007, representing a 25.5% increase.
- The increased revenue was due to the slight increase in state and local source revenues in fiscal 2007.
- The decrease in expenditures was attributable to a decrease in expenditures associated with the support services function.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Brooklyn-Guernsey-Malcom Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Brooklyn-Guernsey-Malcom Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Brooklyn-Guernsey-Malcom Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Brooklyn-Guernsey-Malcom Community School District Annual Financial Report

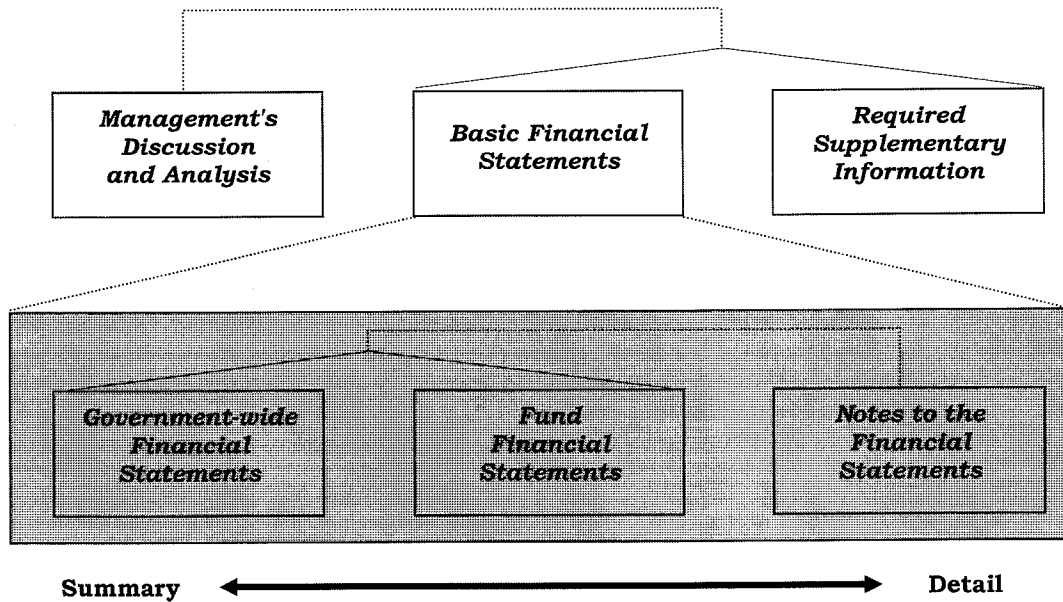


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition, daycare and wellness building programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, the Daycare Fund and the Wellness Building Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 9,316,095	8,604,869	\$ 48,762	43,452	\$ 9,364,857	8,648,321	8.29%
Capital assets	5,743,696	5,726,745	90,070	91,035	5,833,766	5,817,780	0.27%
Total assets	<u>15,059,791</u>	<u>14,331,614</u>	<u>138,832</u>	<u>134,487</u>	<u>15,198,623</u>	<u>14,466,101</u>	<u>5.06%</u>
Long-term obligations	8,681,088	9,120,098	0	0	8,681,088	9,120,098	-4.81%
Other liabilities	2,715,246	2,662,750	5,408	19,717	2,720,654	2,682,467	1.42%
Total liabilities	<u>11,396,334</u>	<u>11,782,848</u>	<u>5,408</u>	<u>19,717</u>	<u>11,401,742</u>	<u>11,802,565</u>	<u>-3.40%</u>
Net assets:							
Invested in capital assets, net of related debt	1,510,941	1,457,329	90,070	91,035	1,601,011	1,548,364	3.40%
Restricted	962,053	249,908	0	0	962,053	249,908	284.96%
Unrestricted	1,190,463	841,529	43,354	23,735	1,233,817	865,264	42.59%
Total net assets	<u>\$ 3,663,457</u>	<u>2,548,766</u>	<u>\$ 133,424</u>	<u>114,770</u>	<u>\$ 3,796,881</u>	<u>2,663,536</u>	<u>42.55%</u>

The District's combined net assets increased by 42.55% compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately 284.96% or \$712,145 from the prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased approximately 42.59% or \$368,553 compared to the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 479,288	478,877	\$ 194,606	178,467	673,894	657,344	2.52%
Operating grants and contributions and restricted interest	664,896	594,029	121,142	120,578	786,038	714,607	10.00%
Capital grants and contributions and restricted interest	0	45,800	0	0	0	45,800	-100.00%
General revenues:							
Property tax	2,511,246	2,300,427	0	0	2,511,246	2,300,427	9.16%
Local option sales and service tax	462,694	389,526	0	0	462,694	389,526	18.78%
Unrestricted state grants	2,338,912	2,316,266	0	0	2,338,912	2,316,266	0.98%
Other	238,073	196,403	785	176	238,858	196,579	21.51%
Total revenues	6,695,109	6,321,328	316,533	299,221	7,011,642	6,620,549	5.91%
Program expenses:							
Governmental activities:							
Instructional	3,317,681	3,774,888	15,897	0	3,333,578	3,774,888	-11.69%
Support services	1,569,170	1,782,944	10,647	0	1,579,817	1,782,944	-11.39%
Non-instructional programs	0	0	271,335	290,962	271,335	290,962	-6.75%
Other expenses	693,567	1,050,736	0	0	693,567	1,050,736	-33.99%
Total expenses	5,580,418	6,608,568	297,879	290,962	5,878,297	6,899,530	-14.80%
Change in net assets	1,114,691	(287,240)	18,654	8,259	1,133,345	(278,981)	-506.24%
Net assets beginning of year	2,548,766	2,836,006	114,770	106,511	2,663,536	2,942,517	-9.48%
Net assets end of year	\$ 3,663,457	2,548,766	\$ 133,424	114,770	3,796,881	2,663,536	42.55%

In fiscal 2007, property tax and unrestricted state grants account for 72.44% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.75% of the revenue from business type activities.

The District's total revenues were approximately \$7.01 million of which \$6.70 million was for governmental activities and \$0.31 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.91% increase in revenues and a 14.80% decrease in expenses.

Governmental Activities

Revenues for governmental activities were \$6,695,109 and expenses were \$5,580,418.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 3,317,681	3,774,888	-12.11%	2,372,478	2,892,523	-17.98%
Support services	1,569,170	1,782,944	-11.99%	1,568,446	1,782,762	-12.02%
Other expenses	693,567	1,050,736	-33.99%	495,310	814,577	-39.19%
Totals	<u>\$ 5,580,418</u>	<u>6,608,568</u>	<u>-15.56%</u>	<u>4,436,234</u>	<u>5,489,862</u>	<u>-19.19%</u>

- A portion of the cost financed by users of the District's programs was \$479,288.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$664,896.
- The net cost portion of governmental activities was financed with \$2,511,246 in property tax, \$462,694 in local option sales and service tax, \$2,338,912 in unrestricted state grants and unrestricted investment earnings of \$194,611.

Business-Type Activities

The District's business-type activities are the School Nutrition Fund, the Preschool Fund and the Wellness Building Fund. Revenues of the District's business-type activities totaled \$316,533 in 2007, which is an increase of 5.79% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses increased 2.38% to \$297,879 for business-type activities in 2007.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Brooklyn-Guernsey-Malcom Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the District completed the year, its governmental funds reported combined fund balances of \$6,349,483, an increase of \$614,188 above last years ending fund balances of \$5,735,295.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The District also decreased its General Fund expenditures over the prior year. The biggest change in General Fund expenditures came in the support services area.
- Rising insurance costs continue to be a concern. The District's Management Fund paid out \$58,482 for workers' compensation, liability, auto/bus, and building/property insurance in fiscal year 2007. The Management fund balance increased \$81,426 during the year, primarily because an increase in the tax levy and a decrease in expenditures as compared to fiscal year 2006.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$128,543 at June 30, 2006 to \$145,695 at June 30, 2007, representing an increase of 13.34%.
- The increase to the fund balance in the Nutrition Fund can be attributed to increase in federal funding during the year.

- The Preschoool Fund continues to have a deficit fund balance of \$8,207, which increased in 2007 from a deficit of \$13,780 in 2006.
- The Wellness Building Fund ended fiscal 2007 with a deficit fund balance of \$4,064 as compared to a fund balance of \$7 for fiscal 2006.

BUDGETARY HIGHLIGHTS

Over the course of the year, Brooklyn-Guernsey-Malcom Community School District amended its annual budget one time to reflect additional expenditures in the non-instructional programs function.

The District's revenues were \$330,632 more than budgeted revenues. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Initially, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional area due to the timing of expenditures paid at year end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$5,833,766, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$279,396.

The original cost of the District's capital assets was \$8,417,661. Governmental funds account for \$8,283,517, with the remainder of \$134,144 accounted for in the Proprietary School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2006, compared to \$68,557 reported at June 30, 2007. The increase in construction in progress is due to the new boiler project at the school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 65,520	65,520	\$ 0	0	\$ 65,520	65,520	0.00%
Construction in progress	68,557	0	0	0	68,557	0	100.00%
Buildings	5,135,896	5,148,088	0	0	5,135,896	5,148,088	-0.24%
Improvements other than buildings	6,402	8,107	0	0	6,402	8,107	-26.63%
Machinery and equipment	467,321	505,030	90,070	91,035	557,391	596,065	-6.94%
Total	<u>\$ 5,743,696</u>	<u>5,726,745</u>	<u>\$ 90,070</u>	<u>91,035</u>	<u>\$ 5,833,766</u>	<u>5,817,780</u>	<u>0.27%</u>

Long-Term Debt

At year-end, the District had \$8,681,088 in bonds and other long-term debt outstanding. This represents a decrease of 4.8% from last year's balance of \$9,120,098. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation	\$ 7,840,000	8,085,000	-3.0%
Bond anticipation note	0	245,227	-100.0%
Early retirement	65,298	47,347	37.9%
Compensated absences	775,790	742,524	4.5%
Totals	<u>\$ 8,681,088</u>	<u>9,120,098</u>	<u>-4.8%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment for a few years and expects the trend to continue for the next 6-10 years.
- SILO tax is bringing in money to help pay the deficits that have been made by cuts in funding.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projection. The District has been forced to shift funding to property taxes.
- In the next three to five years the old school building will be demolished, which will make finances tight during this period.
- During 2007, the baseball/softball complex is going to be renovated.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Schott, Business Manager/Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
U.S. Treasury Securities on deposit with escrow agent	\$ 3,607,245	0	3,607,245
Cash and cash equivalents	3,013,023	38,473	3,051,496
Receivables			
Property tax:			
Delinquent	23,965	0	23,965
Succeeding year	2,294,535	0	2,294,535
Income surtax	277,283	0	277,283
Accounts	930	1,450	2,380
Interest	15,798	0	15,798
Due from other governments	60,311	0	60,311
Prepaid expense	23,005	0	23,005
Inventories	0	8,839	8,839
Capital assets, net of accumulated depreciation (Note 5)	5,743,696	90,070	5,833,766
Total Assets	15,059,791	138,832	15,198,623
Liabilities			
Accounts payable	8,724	0	8,724
Salaries and benefits payable	381,032	2,167	383,199
Accrued interest payable	25,917	0	25,917
Deferred revenue:			
Succeeding year property tax	2,294,535	0	2,294,535
Other	5,038	0	5,038
Unearned revenue	0	3,241	3,241
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	260,000	0	260,000
Early retirement	23,047	0	23,047
Compensated absences	775,790	0	775,790
Portion due after one year:			
General obligation bonds	7,580,000	0	7,580,000
Early retirement	42,251	0	42,251
Total Liabilities	11,396,334	5,408	11,401,742
Net Assets			
Invested in capital assets, net of related debt	1,510,941	90,070	1,601,011
Restricted for:			
Beginning teacher mentoring	604	0	604
Additional teacher contract day	988	0	988
Professional development	12,036	0	12,036
Market factor	3,988	0	3,988
Early intervention	645	0	645
Management levy	53,174	0	53,174
Physical plant and equipment levy	493,432	0	493,432
Capital projects	139,908	0	139,908
Debt service levy	204,882	0	204,882
Other special revenue purposes	52,396	0	52,396
Unrestricted	1,190,463	43,354	1,233,817
Total Net Assets	\$ 3,663,457	133,424	3,796,881

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Services Interest		Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,063,888	217,057	431,918	(1,414,913)	0	(1,414,913)
Special instruction	660,103	93,361	32,586	(534,156)	0	(534,156)
Other instruction	593,690	168,146	2,135	(423,409)	0	(423,409)
	<u>3,317,681</u>	<u>478,564</u>	<u>466,639</u>	<u>(2,372,478)</u>	<u>0</u>	<u>(2,372,478)</u>
Support services:						
Student services	89,542	0	0	(89,542)	0	(89,542)
Instructional staff services	122,087	0	0	(122,087)	0	(122,087)
Administration services	465,500	0	0	(465,500)	0	(465,500)
Operation and maintenance of plant services	663,865	0	0	(663,865)	0	(663,865)
Transportation services	228,176	724	0	(227,452)	0	(227,452)
	<u>1,569,170</u>	<u>724</u>	<u>0</u>	<u>(1,568,446)</u>	<u>0</u>	<u>(1,568,446)</u>
Other expenditures:						
Long-term debt interest	356,815	0	0	(356,815)	0	(356,815)
AEA flowthrough	198,257	0	198,257	0	0	0
Depreciation(unallocated)*	138,495	0	0	(138,495)	0	(138,495)
	<u>693,567</u>	<u>0</u>	<u>198,257</u>	<u>(495,310)</u>	<u>0</u>	<u>(495,310)</u>
Total governmental activities	<u>5,580,418</u>	<u>479,288</u>	<u>664,896</u>	<u>(4,436,234)</u>	<u>0</u>	<u>(4,436,234)</u>
Business-Type activities:						
Preschool						
Instruction:						
Regular	15,897	12,480	9,000	0	5,583	5,583
Support services:						
Administration services	10	0	0	0	(10)	(10)
Total Preschool activities	<u>15,907</u>	<u>12,480</u>	<u>9,000</u>	<u>0</u>	<u>5,573</u>	<u>5,573</u>
Wellness Building						
Support services:						
Administration services	10,637	6,566	0	0	(4,071)	(4,071)
Non-instructional programs:						
Nutrition services	271,335	175,560	112,142	0	16,367	16,367
Total business-type activities	<u>297,879</u>	<u>194,606</u>	<u>121,142</u>	<u>0</u>	<u>17,869</u>	<u>17,869</u>
Total	<u>\$ 5,878,297</u>	<u>673,894</u>	<u>786,038</u>	<u>(4,436,234)</u>	<u>17,869</u>	<u>(4,418,365)</u>
General Revenues:						
Property tax: levied for:						
General purposes				\$ 1,819,492	0	1,819,492
Debt service				428,960	0	428,960
Capital outlay				262,794	0	262,794
Local option sales and services tax:				462,694	0	462,694
Unrestricted state grants				2,338,912	0	2,338,912
Gain on sale of equipment				11,423	0	11,423
Unrestricted investment earnings				194,611	785	195,396
Other				32,039	0	32,039
Total general revenues				<u>5,550,925</u>	<u>785</u>	<u>5,551,710</u>
Changes in net assets				1,114,691	18,654	1,133,345
Net assets beginning of year				2,548,766	114,770	2,663,536
Net assets end of year				<u>\$ 3,663,457</u>	<u>133,424</u>	<u>3,796,881</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
Assets					
U.S. Treasury Securities on deposit with escrow agent	\$ 0	0	3,607,245	0	3,607,245
Cash and pooled investments	2,048,156	104,800	198,866	661,201	3,013,023
Receivables:					
Property tax:					
Delinquent	17,116	0	4,500	2,349	23,965
Succeeding year	1,572,760	0	477,978	243,797	2,294,535
Income surtax	85,318	0	0	191,965	277,283
Interfund	0	0	1,516	0	1,516
Interest	15,798	0	0	0	15,798
Accounts	930	0	0	0	930
Due from other governments	23,607	36,704	0	0	60,311
Prepaid expense	22,255	0	0	750	23,005
Total Assets	\$ 3,785,940	141,504	4,290,105	1,100,062	9,317,611
Liabilities and Fund Balances					
Liabilities:					
Interfund payable	\$ 1,516	0	0	0	1,516
Accounts payable	7,128	1,596	0	0	8,724
Salaries and benefits payable	381,032	0	0	0	381,032
Deferred revenue:					
Succeeding year property tax	1,572,760	0	477,978	243,797	2,294,535
Income surtax	85,318	0	0	191,965	277,283
Other	5,038	0	0	0	5,038
Total liabilities	2,052,792	1,596	477,978	435,762	2,968,128
Fund balances:					
Reserved for:					
Debt service	0	0	3,812,127	0	3,812,127
Beginning teacher mentoring	604	0	0	0	604
Additional teacher contract day	988	0	0	0	988
Professional development	12,036	0	0	0	12,036
Market factor	3,988	0	0	0	3,988
Early intervention	645	0	0	0	645
Unreserved fund balances	1,714,887	139,908	0	664,300	2,519,095
Total fund balances	1,733,148	139,908	3,812,127	664,300	6,349,483
Total Liabilities and Fund Balances	\$ 3,785,940	141,504	4,290,105	1,100,062	9,317,611

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds(pages 15)	\$ 6,349,483
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	5,743,696
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(25,917)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	277,283
Long-term liabilities, including bonds payable, early retirement and compensated absences, are not due and payable in the current period and, therefore are not reported in the funds.	<u>(8,681,088)</u>
Net assets of governmental activites(page 13)	<u><u>\$ 3,663,457</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,626,851	462,694	428,960	413,240	2,931,745
Tuition	289,126	0	0	0	289,126
Other	124,910	4,094	121,398	174,070	424,472
State sources	2,829,426	0	327	170	2,829,923
Federal sources	166,225	0	0	0	166,225
Total revenues	5,036,538	466,788	550,685	587,480	6,641,491
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,032,518	0	0	9,936	2,042,454
Special instruction	660,103	0	0	0	660,103
Other instruction	423,225	0	0	170,465	593,690
	3,115,846	0	0	180,401	3,296,247
Support services:					
Student services	89,542	0	0	0	89,542
Instructional staff services	122,087	0	0	0	122,087
Administration services	494,608	0	5	0	494,613
Operation and maintenance of plant services	487,093	0	0	181,334	668,427
Transportation services	188,412	0	0	0	188,412
	1,381,742	0	5	181,334	1,563,081
Other expenditures:					
Facilities acquisitions	0	65,221	0	66,531	131,752
Long-term debt:					
Principal	0	0	490,227	0	490,227
Interest	0	0	359,162	0	359,162
AEA flowthrough	198,257	0	0	0	198,257
	198,257	65,221	849,389	66,531	1,179,398
Total expenditures	4,695,845	65,221	849,394	428,266	6,038,726
Excess(deficiency) of revenues over(under) expenditures	340,693	401,567	(298,709)	159,214	602,765
Other financing sources(uses):					
Transfers in	0	0	266,988	0	266,988
Transfers out	0	(250,923)	0	(16,065)	(266,988)
Sales of equipment and materials	11,423	0	0	0	11,423
Total other financing sources(uses)	11,423	(250,923)	266,988	(16,065)	11,423
Net change in fund balances	352,116	150,644	(31,721)	143,149	614,188
Fund balances beginning of year	1,381,032	(10,736)	3,843,848	521,151	5,735,295
Fund balances end of year	\$ 1,733,148	139,908	3,812,127	664,300	6,349,483

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds(pages 17) \$ 614,188

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 285,294	
Depreciation expense	(268,343)	16,951

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments were as follows:

Repaid		490,227
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,347

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

42,195

Some expenses reported in the Statement of Activities do no require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(17,951)	
Compensated absences	(33,266)	(51,217)

Changes in net assets of governmental activities(page 14)

\$ 1,114,691

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	School Nutrition	Pre- school	Wellness Building	Total
Assets				
Cash and pooled investments	\$ 50,027	(7,490)	(4,064)	38,473
Accounts receivable	0	1,450	0	1,450
Inventories	8,839	0	0	8,839
Capital assets, net of accumulated depreciation	90,070	0	0	90,070
Total Assets	148,936	(6,040)	(4,064)	138,832
Liabilities				
Salaries and benefits payable	0	2,167	0	2,167
Unearned revenues	3,241	0	0	3,241
Total Liabilities	3,241	2,167	0	5,408
Net Assets				
Invested in capital assets	90,070	0	0	90,070
Unrestricted	55,625	(8,207)	(4,064)	43,354
Total Net Assets	\$ 145,695	(8,207)	(4,064)	133,424

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	Wellness Building	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 167,657	12,480	0	180,137
Donations	0	9,000	0	9,000
Miscellaneous	7,903	0	6,566	14,469
TOTAL OPERATING REVENUES	175,560	21,480	6,566	203,606
OPERATING EXPENSES:				
Instruction:				
Regular:				
Salaries	0	12,377	0	12,377
Benefits	0	3,520	0	3,520
Total Instruction	0	15,897	0	15,897
Support services:				
Administration services:				
Salaries	0	0	9,758	9,758
Benefits	0	10	879	889
Total support services	0	10	10,637	10,647
Non-instructional programs:				
Salaries	91,219	0	0	91,219
Benefits	17,286	0	0	17,286
Services	1,919	0	0	1,919
Supplies	149,708	0	0	149,708
Other	150	0	0	150
Depreciation	11,053	0	0	11,053
Total non-instructional	271,335	0	0	271,335
TOTAL OPERATING EXPENSES	271,335	15,907	10,637	297,879
OPERATING INCOME(LOSS)	(95,775)	5,573	(4,071)	(94,273)
NON-OPERATING REVENUES:				
State sources	3,644	0	0	3,644
Federal sources	108,498	0	0	108,498
Interest income	785	0	0	785
TOTAL NON-OPERATING REVENUES	112,927	0	0	112,927
Changes in net assets	17,152	5,573	(4,071)	18,654
Net assets beginning of year	128,543	(13,780)	7	114,770
Net assets end of year	\$ 145,695	(8,207)	(4,064)	133,424

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition	Pre- school	Wellness Building	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 168,033	0	0	168,033
Cash received from miscellaneous operating activities	7,903	20,030	6,566	34,499
Cash payments to employees for services	(108,505)	(15,599)	(10,637)	(134,741)
Cash payments to suppliers for goods or services	(135,473)	0	(14,993)	(150,466)
Net cash provided by(used in) operating activities	(68,042)	4,431	(19,064)	(82,675)
Cash flows from non-capital financing activities:				
State grants received	3,644	0	0	3,644
Federal grants received	88,731	0	0	88,731
Net cash provided by non-capital financing activities	92,375	0	0	92,375
Cash flows from capital and related financing activities:				
Purchase of capital assets	(10,088)	0	0	(10,088)
Cash flows from investing activities:				
Interest on investments	785	0	0	785
Net increase(decrease) in cash and cash equivalents	15,030	4,431	(19,064)	397
Cash and cash equivalents at beginning of year	34,997	(11,921)	15,000	38,076
Cash and cash equivalents at end of year	\$ 50,027	(7,490)	(4,064)	38,473
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (95,775)	5,573	(4,072)	(94,274)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	19,767	0	0	19,767
Depreciation	11,053	0	0	11,053
Increase in inventories	(3,463)	0	0	(3,463)
Increase in accounts receivable	0	(1,450)	0	(1,450)
Decrease in accounts payable	0	0	(14,993)	(14,993)
Increase in salaries and benefits payable	0	308	0	308
Increase in unearned revenue	376	0	0	376
Net cash provided by(used in) operating activities	\$ (68,042)	4,431	(19,065)	(82,676)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ 50,027	(7,490)	(4,064)	38,473

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received
Federal commodities valued at \$19,767.

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Brooklyn-Guernsey-Malcom Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Brooklyn, Iowa, and portions of Guernsey and Malcom, and the predominate agricultural territory in Poweshiek County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Brooklyn-Guernsey-Malcom Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Brooklyn-Guernsey-Malcom Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The value of the United States Treasury Securities on deposit with the escrow agent as part of the crossover refunding bond issue has been added to the invested in capital assets, net of related debt.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition Fund, Preschool Fund and Wellness Building Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to

account for the child care and preschool services provided by the District. The Wellness Building Fund is used to account for health services provided to employees by the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's

principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the GAAP basis. The financial statements of the District are prepared by making memorandum adjusting entries to the GAAP basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

Diversified Portfolio

<u>Amortized Cost</u>
\$ 806,119

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The U.S. Treasury Securities are classified as Category 1, which means the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2007, the District had investments in U.S. Treasury Securities as follows:

	<u>Fair Value</u>
U.S. Treasury Securities	\$ 3,607,245

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 250,923
	Special Revenue:	
	Physical Plant and	
Debt Service	Equipment Levy	16,065
		<u>\$ 266,988</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Due From and Due to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	General	\$ 1,615

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,520	0	0	65,520
Construction in progress	0	68,557	0	68,557
Total capital assets not being depreciated	65,520	68,557	0	134,077
Capital assets being depreciated:				
Buildings	6,714,877	124,598	0	6,839,475
Improvements other than buildings	34,092	0	0	34,092
Machinery and equipment	1,306,760	92,139	123,026	1,275,873
Total capital assets being depreciated	8,055,729	216,737	123,026	8,149,440
Less accumulated depreciation for:				
Buildings	1,566,789	136,790	0	1,703,579
Improvements other than buildings	25,985	1,705	0	27,690
Machinery and equipment	801,730	129,848	123,026	808,552
Total accumulated depreciation	2,394,504	268,343	123,026	2,539,821
Total capital assets being depreciated, net	5,661,225	(51,606)	0	5,609,619
Governmental activities capital assets, net	\$ 5,726,745	16,951	0	5,743,696

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 157,843	10,088	33,787	134,144
Less accumulated depreciation	66,808	11,053	33,787	44,074
Business-type activities capital assets, net	\$ 91,035	(965)	0	90,070

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 26,925
Support services:	
Operation and maintenance of plant services	33,348
Transportation	69,575
	129,848
Unallocated depreciation	138,495
Total governmental activities depreciation expense	\$ 268,343
Business-type activities:	
Food services	\$ 11,053

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 8,085,000	0	245,000	7,840,000	260,000
Bond anticipation note	245,227	0	245,227	0	0
Early Retirement	47,347	27,548	9,597	65,298	23,047
Compensated absences	742,524	775,790	742,524	775,790	775,790
Total	\$ 9,120,098	803,338	1,242,348	8,681,088	1,058,837

General Obligation

On March 1, 2004, the District issued \$3,725,000 of general obligation refunding bonds, with interest rates ranging from 3.00% to 4.00%, for a crossover refunding of a portion of the general obligation bonds issued September 1, 1999. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,585,000 principal of the refunded general obligation bonds when they become callable on May 1, 2009 and the interest from May 1, 2004 to and including May 1, 2009 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished.

Details of the District's June 30, 2007 General Obligation bonds indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue September 1, 1999		
		Principal	Interest	Total
2008	4.80 %	\$ 260,000	207,782	467,782
2009	4.75	270,000	195,302	465,302
2010	4.80	285,000	182,478	467,478
2011	4.90	300,000	168,798	468,798
2012	4.95	315,000	154,098	469,098
2013	5.00	330,000	138,506	468,506
2014	5.10	345,000	122,006	467,006
2015	5.10	365,000	104,410	469,410
2016	5.15	380,000	85,796	465,796
2017	5.20	400,000	66,226	466,226
2018	5.20	420,000	45,426	465,426
2019	5.30	445,000	23,586	468,586
Subtotal		\$ 4,115,000	1,494,414	5,609,414

Year Ending June 30,	Interest Rate	Bond issue March 1, 2004		
		Principal	Interest	Total
2008	3.00 %	\$ 0	130,195	130,195
2009	3.00	0	130,195	130,195
2010	3.00	335,000	127,720	462,720
2011	3.00	350,000	117,520	467,520
2012	3.00-3.20	360,000	106,945	466,945
2013	3.20-3.30	370,000	95,525	465,525
2014	3.30-3.50	380,000	83,325	463,325
2015	3.50-3.70	395,000	70,128	465,128
2016	3.70-3.75	410,000	55,615	465,615
2017	3.75-3.90	425,000	40,103	465,103
2018	3.90-4.00	440,000	23,490	463,490
2019	4.00	260,000	7,900	267,900
Subtotal		\$ 3,725,000	988,660	4,713,660
Total		\$ 7,840,000	2,483,074	10,323,074

Early Retirement

The District offers a voluntary early retirement plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-five, and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November 15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. During the year ended June 30, 2007, the District paid \$9,597 in early retirement benefits.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$160,854, \$153,457, \$145,641, respectively, equal to the required contributions for each year.

(8) Risk Management

Brooklyn-Guernsey-Malcom Community School District is exposed to Various risks of loss related to torts; theft; damage to and Destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$198,257 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the other expenditures functional program area exceeded the amount budgeted.

(11) Deficit Fund Balance

The District had two deficit fund balances at June 30, 2007. The Enterprise Fund - Preschool Fund had a deficit undesignated balance of \$8,207. The Enterprise Fund - Wellness Building Fund had deficit fund balance of \$4,064.

(12) Construction Commitment

As of June 30, 2007, costs of \$68,557 had been incurred for a boiler replacement project at the school. When the project is completed, the construction costs will be added to the capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,645,343	204,391	3,849,734	3,507,231	3,507,231	342,503
State sources	2,829,923	3,644	2,833,567	2,824,572	2,824,572	8,995
Federal sources	166,225	108,498	274,723	295,589	295,589	(20,866)
Total revenues	6,641,491	316,533	6,958,024	6,627,392	6,627,392	330,632
Expenditures:						
Instruction	3,296,247	15,897	3,312,144	3,773,918	3,773,918	461,774
Support services	1,563,081	10,647	1,573,728	1,836,875	1,836,875	263,147
Non-instructional programs	0	271,335	271,335	296,295	450,000	178,665
Other expenditures	1,179,398	0	1,179,398	917,663	917,663	(261,735)
Total expenditures	6,038,726	297,879	6,336,605	6,824,751	6,978,456	641,851
Excess(deficiency) of revenues over(under) expenditures	602,765	18,654	621,419	(197,359)	(351,064)	972,483
Other financing sources, net	11,423	0	11,423	0	0	11,423
Excess(deficiency) of revenues and other financing sources over(under) expenditures	614,188	18,654	632,842	(197,359)	(351,064)	983,906
Balance beginning of year	5,735,295	114,770	5,850,065	5,655,946	5,655,946	194,119
Balance end of year	\$ 6,349,483	133,424	6,482,907	5,458,587	5,304,882	1,178,025

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$153,705.

During the year ended June 30, 2007, expenditures in the other expenditures functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 116,096	52,396	492,709	661,201
Receivables:				
Property tax:				
Current year delinquent	1,626	0	723	2,349
Succeeding year	170,000	0	73,797	243,797
Income surtax	0	0	191,965	191,965
Prepaid expenses	750	0	0	750
Total Assets	\$ 288,472	52,396	759,194	1,100,062
Liabilities and Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ 170,000	0	73,797	243,797
Income surtax	0	0	191,965	191,965
Total Liabilities	170,000	0	265,762	435,762
Unreserved fund balances	118,472	52,396	493,432	664,300
Total Liabilities and Fund Balances	\$ 288,472	52,396	759,194	1,100,062

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 150,446	0	262,794	413,240
Other	0	170,281	3,789	174,070
State sources	118	0	52	170
TOTAL REVENUES	150,564	170,281	266,635	587,480
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	9,936	0	0	9,936
Other instruction	0	170,465	0	170,465
Support services:				
Operation and maintenance of plant services	59,202	0	122,132	181,334
Other expenditures:				
Facilities acquisitions	0	0	66,531	66,531
TOTAL EXPENDITURES	69,138	170,465	188,663	428,266
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	81,426	(184)	77,972	159,214
OTHER FINANCING USES:				
Transfers out	0	0	(16,065)	(16,065)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	81,426	(184)	61,907	143,149
FUND BALANCES BEGINNING OF YEAR	37,046	52,580	431,525	521,151
FUND BALANCES END OF YEAR	\$ 118,472	52,396	493,432	664,300

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Dramatics	\$ 1,287	11,844	9,940	3,191
Vocal music	453	1,066	1,238	281
JH vocal music	304	997	1,301	0
Band Resale	0	321	317	4
Band uniform cleaning	1,248	0	0	1,248
Athletics	4,983	42,205	45,245	1,943
Athletics resale	784	2,126	874	2,036
Volleyball	1,321	3,656	3,836	1,141
Band instrument rent	0	245	0	245
Pool activity	2,898	8,096	4,928	6,066
Boys basketball	12	0	0	12
Football	3,442	10,729	11,421	2,750
Wrestling	0	100	0	100
Girls basketball	1	2,452	2,338	115
Girls softball	387	915	933	369
Girls track	671	2,350	2,236	785
Boys track	165	2,159	1,184	1,140
Student council	6,542	16,566	17,060	6,048
JH student council	785	6,399	5,189	1,995
Elementary student council	3,499	6,809	7,623	2,685
Silver spirit poms	568	3,229	2,956	841
Elementary student council camp	1,731	2,135	3,600	266
Elementary student welfare	132	2,239	1,855	516
Echo	7,377	5,386	9,753	3,010
FHA	239	0	0	239
Pep club	84	0	0	84
Boys letter club	38	0	0	38
Girls letter club	36	0	0	36
HS cheerleaders	1,127	4,781	5,714	194
JH cheerleaders	10	0	0	10
French club	80	0	0	80
Jump rope for heart	856	0	197	659
FCA	1,745	0	0	1,745
Elementary resale	559	0	0	559
Special athletics	4,835	24,792	24,203	5,424
AFS	170	0	0	170
Class of 2007	2,172	960	3,132	0
Class of 2008	1,634	5,980	3,374	4,240
Class of 2009	405	1,505	0	1,910
Class of 2010	0	239	18	221
Total	\$ 52,580	170,281	170,465	52,396

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	2,931,745	2,742,108	2,776,594	2,682,910
Tuition		289,126	296,371	287,051	277,792
Other		424,472	376,436	207,620	207,714
State sources		2,829,923	2,773,812	2,704,103	2,464,710
Federal sources		166,225	182,283	191,741	571,600
Total	\$	6,641,491	6,371,010	6,167,109	6,204,726
Expenditures:					
Instruction:					
Regular instruction	\$	2,042,454	1,964,190	2,048,735	2,091,818
Special instruction		660,103	713,857	620,979	549,516
Other instruction		593,690	606,715	287,395	438,253
Support services:					
Student services		89,542	89,609	43,073	42,443
Instructional staff services		122,087	145,801	115,767	108,106
Administration services		494,613	546,602	509,434	511,743
Operation and maintenance of plant services		668,427	567,990	420,102	619,082
Transportation services		188,412	319,541	163,817	302,023
Other expenditures:					
Facilities acquisitions		131,752	406,230	621,754	1,216,670
Long Term Debt:					
Principal		490,227	488,589	641,902	966,725
Interest		359,162	372,197	409,159	359,404
AEA flow-through		198,257	190,359	186,460	183,434
Total	\$	6,038,726	6,411,680	6,068,577	7,389,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Brooklyn-Guernsey-Malcom Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Brooklyn-Guernsey-Malcom Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Brooklyn-Guernsey-Malcom Community School District's financial statements that is more than inconsequential will not be prevented or detected by Brooklyn-Guernsey-Malcom Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Brooklyn-Guernsey-Malcom Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Brooklyn-Guernsey-Malcom Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Brooklyn-Guernsey-Malcom Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Brooklyn-Guernsey-Malcom Community School District and other parties to whom Brooklyn-Guernsey-Malcom Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Brooklyn-Guernsey-Malcom Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 14, 2008

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-07 Payroll Procedures - We noted during our audit that the District is paying a coaching stipend to an employee for services performed during football practices; however the stipend is not run through the District's payroll system.

Recommendation - The District should run the stipend through the District's payroll system so the wage can be subjected to the appropriate payroll taxes.

Response - This stipend will be handled through the District's payroll system in the future.

Conclusion - Response accepted.

- I-C-07 Establishment of Accounts - We discovered during our audit that a coach had established a separately maintained bank account. In Iowa, all funds collected through school activities are under the financial control of the District's Board of Education. Proper accounting of all receipts and expenditures in this account is the responsibility of the Board of Education and the District's Board Secretary.

Although the District had established policies and procedures to record all bank accounts associated with District activities, the controls were not effective in preventing the establishment and maintenance of this account by the coach.

Recommendation - The District should review procedures and make necessary changes to strengthen controls relating to establishment and maintenance of bank accounts. The District should also contact the banks the District does business with to verify there are no employees or outside groups establishing bank accounts using the District Federal Identification Number.

Response - This account has been closed and the remaining moneys in the account were electronically transferred to the District's Activity Fund. All the revenues and expenditures are now going through the regular procedures for payment. We have checked with the bank and will do so throughout the year to make sure that a situation like this will not occur in the future.

Conclusion - Response accepted.

I-D-07 Gate Admissions - Pre-numbered tickets are not being used for all performances and athletic events held on District grounds.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.
- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small.
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to night deposit at the bank or lock the event proceeds in the District's vault until deposit the following day.
- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - In the future, pre-numbered tickets will be used for all performances held by the District. We will review procedures and amend as necessary.

Conclusion - Response accepted.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the other expenditures functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will amend the budget as needed in the future.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Arlene Ford, Board Member Son owns Loren Ford Trucking	Purchased service	\$144

In accordance with Attorney's General Opinion dated November 9, 1976, the above transaction with the Board Member's spouse does not appear to present a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-07 Financial Condition - During our audit, we noted deficit fund balances in two funds. The Enterprise - Preschool Fund had deficit net assets of \$8,207. The Enterprise - Wellness Building Fund had deficit net assets of \$4,064.

Recommendation - The District should review purchase approval procedures for the Enterprise - Preschool Fund and the Enterprise - Wellness Building Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The Wellness Building Fund no longer has deficit net assets. We now have an automated system in operation at the Wellness Center which eliminated the need for a paid attendant. The automation eliminated monthly expenses for the fund.

The Preschool Fund has acquired additional funding for fiscal year 2008. This fund will be reviewed annually to see if preschool fees need to be increased to cover fund expenditures.

Conclusion - Response accepted.

II-K-07 Employment Contracts - We noted during our audit that the Superintendent was signing employment contracts for the District. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into.

Response - We are now having all contracts signed by the Board President.

Conclusion - Response accepted.

II-L-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The checking account for the Capital Projects Fund provides cancelled checks through electronic image, but does not include an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of all cancelled checks for every fund as required by the Code of Iowa.

Response - This change has been implemented. We are now receiving images of both front and back of all cancelled checks from the Capital Projects Fund.

Conclusion - Response accepted.